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Hay Group Insurance Study

Background

- 1. School districts will spend \$2.1 billion on health care in the 2005-2006 school year.
- 2. The Senate Fiscal Agency estimates that the cost to cover increases in health insurance for <u>current</u> school employees from 2004 to 2005 is \$156 per pupil.
- 3. According to Tom Clay of the Citizens Research Council, an additional \$125 per pupil per year will be needed to address rising pension and health care costs for <u>retired</u> employees from fiscal year 2005 through fiscal year 2008.
- 4. Average annual health insurance costs per employee are as follows:

Michigan	A large SE	A mid-sized	State of	Michigan
Schools	Michigan	state university	Michigan	Senate
	township			
	government			
\$11,362	\$9,933	\$9,723	\$9,212	\$8,893
	\$1,429 less than	\$1,639 less than	\$2,150 less than	\$2,469 less than
	schools	schools	schools	schools

Notable highlights of study

- The average cost of health insurance for Michigan school employees is \$11,362 per employee. Fee-for-service insurance coverage, at \$12,349 per employee, is the most expensive type of plan available. Forty-eight percent of Michigan school employees have this plan, compared with only 8% of public employees nationwide and 2% of all public and private employees combined nationwide.
- In addition to savings from a larger risk pool, savings also would result from reduced administrative costs and using best practices in administration.
- If teacher health care benefits were put into a single system, teachers could receive the same quality of health care they currently receive.
- School districts and local bargaining units will still choose the best coverage for themselves.
- Putting teacher health care coverage into a single system would save taxpayers anywhere from \$146 million to \$281 million per year.
- The options laid out by the Hay Group indicate a potential savings of between \$86 and \$165 in per pupil funding.

- The Hay Group is presenting three options in the report with recommendations to adopt Option 3, which would be the most cost effective. Here is the summary of the three options:
 - Option 1 We asked the Hay Group to provide an estimate of potential savings assuming no benefit changes from what is currently offered. Teachers would get the same exact benefits they receive today. They estimate the savings to be \$146 million. The Hay Group suggests this option will be difficult to implement with so many different plans being offered.
 - o Highlights of Option 1 include:
 - No change in benefits
 - \$146 million in savings (approximately \$86 per pupil)
 - Schools and local bargaining units will continue to decide benefits
 - Option 2 The State would offer a menu of health care options, including two fee-for-service plans, two PPO plans, one point-of-service plan, and a variety of regional HMOs. Estimated savings for Option 2 is \$155 million. Savings under Option 2 are greater than Option 1, even though the majority of employees will see no change or an increase in benefits.
 - o Highlights of Option 2 include:
 - Approximately 44% of employees would see no change in benefits
 - Approximately 46% of employees would see an increase in benefits
 - Less than 10% of employees would see a slight decrease in benefits
 - \$155 million in savings (approximately \$91 per pupil)
 - Schools and local bargaining units will choose the best option for them from the menu offered by the state
 - Option 3 The State would offer a menu of benefits, but will not offer any feefor-service plans. This would feature a choice for each school district from among three types of health plan delivery systems: a basic or enhanced PPO, a point-ofservice plan, and a variety of HMOs. The "top of the line" option would be a PPO plan that is more generous than the current state employee plan. This option provides the greatest savings and the greatest increase in benefits.
 - o Highlights of Option 3:
 - Savings from Option 3 would be \$281 million (approximately \$165 per pupil.)
 - Approximately 18% would see no change in benefits
 - Approximately 73% would see an increase in benefits
 - Approximately 8% would see a slight decrease in benefits
 - Schools and local bargaining units will choose the best option for them from the menu offered by the state
 - Option 3 is the recommended option from the Hay Group and would show the most savings without sacrificing a high level of benefits
- The health insurance plans offered to Michigan school employees are in the top 10 percent nationwide. Regardless of which of the above options is chosen, the health insurance plans would still be within the top 10 percent of those offered.
- For access to the full report, visit http://council.legislature.mi.gov.